

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6406

BILL NUMBER: HB 1020

NOTE PREPARED: Feb 19, 2014

BILL AMENDED: Feb 18, 2014

SUBJECT: Economic Development Incentives.

FIRST AUTHOR: Rep. Koch

FIRST SPONSOR: Sen. Hershman

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: ☒ **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) The bill requires the Commission on State Tax and Financing Policy (CSTFP) to review, analyze, and evaluate state and local tax incentives that are provided to encourage economic development or to alter, reward, or subsidize a particular action or behavior by a tax incentive recipient. The bill also provides that certain income tax credits (which were reviewed by the commission on state tax and financing policy in 2012 and 2013) expire on January 1, 2020.

Effective Date: July 1, 2014.

Explanation of State Expenditures: *Summary* - The bill requires the CSTFP to complete a comprehensive review of all state and local tax incentives over a five-year period beginning in the 2014 interim. The study ends in 2023 after completing two review cycles. The bill also requires the Legislative Services Agency (LSA) to conduct the evaluation and analysis of each tax incentive scheduled for review by the CSTFP.

It is estimated that to fully implement the tax incentive review program, LSA would need to hire two additional fiscal analysts (one a senior fiscal analyst). LSA also would have to obtain a regional economic model to estimate the indirect economic effects of tax incentives. The annual salary and benefit cost of the two fiscal analysts is expected to total about \$185,000. The initial cost of a regional economic model such as IMPLAN (hardware, software, state and local data, training, and support) would total about \$15,000, with yearly data updates potentially costing about \$10,000.

If the CSTFP has to hold additional meetings to conduct the tax incentive reviews, there would be additional expenditures on per diem and travel reimbursement for the CSTFP members. Any additional expenditures would have to be within the CSTFP's budget, which is established by the Legislative Council.

Additional Information - The bill requires the five-year tax incentive review to cover exemptions, deductions, credits, preferential rates, and other tax benefits that: (1) reduce the amount of a tax that would otherwise be due to the state; (2) result in a tax refund in excess of any tax due; or (3) reduce the amount of property taxes that would otherwise be due to a political subdivision of the state. The bill also requires the tax incentive review to include programs under which political subdivisions dedicate revenue to provide improvements or to retire bonds issued to pay for improvements in an economic or sports development area, a community revitalization area, an enterprise zone, or a tax increment financing district. The bill also specifies the evaluation and analysis to be done on each tax incentive.

The bill requires LSA to perform the evaluation and analysis of tax incentives for the CSTFP and report its findings on each tax incentive to the CSTFP. The bill also specifies information to be gathered and reported and the types of analysis to be done on each tax incentive. The number of tax incentives that would have to be studied each interim and the breadth of the evaluation and analysis that the bill requires for each tax incentive would result in a significant increase in workload for the LSA.

Explanation of State Revenues: (Revised) *Tax Credits Expiring in 2020*: The bill expires the following credits effective on January 1, 2020.

Credit	Estimated Impact
Coal Gasification Technology Investment Credit	\$14,250,000
Community Revitalization Enhancement District Credit	\$1,692,000
Earned Income Tax Credit	\$99,135,000
Economic Development for a Growing Economy (EDGE)	\$4,894,000
Enterprise Zone Employment Expense Tax Credit	\$1,061,000
Enterprise Zone Investment Cost Tax Credit	\$93,000
Enterprise Zone Loan Interest Tax Credit	\$1,722,000
Headquarters Relocation Tax Credit	\$0
Historic Rehabilitation Tax Credit	\$120,000
Indiana 529 College Savings Contribution Credit	\$33,517,000
Indiana Insurance Guaranty Assoc. Assessment Credit	\$1,220,000
Indiana Comprehensive Health Insurance Assoc. (ICHIA) Credit	\$150,000
Individual Development Account Credit	95,000
Industrial Recovery Tax Credit	\$71,000
Neighborhood Assistance Credit	\$2,001,000
Research and Development (R&D) Expense Credit	\$30,130,000
Prison Investment Credit	\$128,000
School Scholarship Contribution Credit	\$1,231,000
Teacher Summer Employment Credit	\$0
21 st Century Scholars Program Credit	\$17,000
Unified Tax Credit for the Elderly	\$11,541,000
Venture Capital Investment Tax Credit	\$0
Total	\$203,068,000

Expiring those tax credits could potentially increase state General Fund revenue \$203.1 M beginning in FY 2021. The revenue estimate is based on the average credits claimed between 2006 and 2011 and current credit eligibility. It is assumed that some taxpayers will continue to carry forward unused credits. It is important to note that annual revenue impact of sunseting EDGE could potentially increase to approximately \$50 M over a period of 8 to 10 years. [The bill does not prevent taxpayers from carrying forward unused credits if it was authorized by the specific credit statute.]

Effective January 1, 2020, the bill expires the tax credit for property taxes paid on homesteads in Lake County. It also expires the provision in current law that allows the deduction of river boat admissions tax distributed to the Lake County units to repay the state General Fund for the revenue loss from the tax credit. Since there is a time lag in reimbursement to the state General Fund, the state General Fund will not be reimbursed for about \$4.1 M in FY 2020 and \$8.2 in FY 2021. (See *Explanation of Local Revenues* for additional information.)

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Lake County Homeowner's Property Tax Credit*: The entire cost of the Lake County Homeowner's Property Tax Credit to the state General Fund is annually reimbursed from Riverboat Admission Tax revenue distributed to Lake County (50%), East Chicago (16.67%), Gary (16.67%), and Hammond (16.67%). Starting January 1, 2020, the bill expires the tax credit for property taxes paid on homesteads in Lake County and removes the deduction of river boat admissions tax from Lake County units. This will increase the amount of river boat admissions tax revenues received by Lake County, Gary, East Chicago, and Hammond. The increase will be an estimated \$8.2 M in each calendar year beginning in CY 2020, with Lake County receiving \$4.1 M and East Chicago, Gary, and Hammond each receiving \$1.37 M.

State Agencies Affected: General Assembly; Legislative Services Agency; Department of State Revenue; Indiana Economic Development Corporation; Indiana Housing and Community Development Authority; Office of Rural and Community Affairs; Department of Natural Resources; Indiana Department of Corrections; Commission on Higher Education; Indiana Education Savings Authority.

Local Agencies Affected: Enterprise Zones; Community Revitalization Enhancement Districts; Lake County; Gary, East Chicago, and Hammond.

Information Sources: LSA Income Tax Database; Auditor's Database.

Fiscal Analyst: Jim Landers, 232-9869; Heath Holloway, 232-9867.

Appendix - Tax Credit Explanations

Coal Gasification Technology Investment Credit (IC 6-3.1-29) - The Coal Gasification Technology Investment Tax Credit was established to encourage the use of Indiana coal to produce synthesis gas to generate electricity and for the production of synthesis gas to be used as a substitute for natural gas. The credit is equal to 10% of the first \$500 M in qualified investment in an integrated coal gasification power plant, and 5% of the qualified investment that exceeds \$500 M. The credit for fluidized bed combustion technology is equal to 7% of the qualified investment for the first \$500 M invested, and 3% of the amount of the qualified investment that exceeds \$500 M. Credits are approved by the IEDC Board.

The credit must be taken in 10 annual installments. The annual amount of the credit is equal to the lesser of the total amount of the credit awarded divided by 10, or the greater of the taxpayer's liability for the Utility Receipts Tax, or 25% of the taxpayer's total state tax liability (AGI Tax, Financial Institutions Tax, and Insurance Premiums Tax), multiplied by the percentage of Indiana coal used by the taxpayer in the power plant for the taxable year of the installment.

Taxpayers may assign part or all of the credit to one or more utilities by entering into a contract approved by the Utility Regulatory Commission. A taxpayer who makes a qualified investment in an integrated coal gasification power plant and enters into a contract to sell substitute natural gas to the Indiana Finance Authority, may choose to claim the credit as a refundable tax credit for a period of 20 years.

Community Revitalization Enhancement District Credit (IC 6-3.1-19) - This tax credit is for taxpayers who make qualified investments for the redevelopment or rehabilitation of property located within a community revitalization enhancement district (CRED). The credit equals 25% of the qualified investment. The credit is nonrefundable, but unused credits may be carried forward to subsequent years. Unused credits may not be carried back. The credit may be used to reduce the taxpayer's tax liability under the individual or corporate

AGI Tax, Local Option Income Taxes, the Financial Institutions Tax, or the Insurance Premiums Tax. A taxpayer is not entitled to a credit if they substantially reduce or cease to operate in another area of the state in order to relocate within the district.

Earned Income Tax Credit (IC 6-3.1-21) - An individual AGI taxpayer is eligible for the Indiana Earned Income Tax Credit if they are eligible for the federal Earned Income Tax Credit under Section 32 of the Internal Revenue Code. The credit amount depends on the number of qualifying children and the household modified adjusted gross income. The maximum credit for tax year 2012 is \$471. The credit is refundable.

Economic Development for a Growing Economy (EDGE) Credit (IC 6-3.1-13) - The EDGE credit is for businesses that either create new jobs in Indiana, or undertake projects to retain existing jobs in Indiana. Credit amounts are determined by the IEDC, but may not exceed the incremental income tax withholdings of new or retained employees. EDGE credits are awarded for up to 10 years during which time the credit amounts may be used. The IEDC is authorized to make EDGE credits refundable. EDGE credits may be taken against a taxpayer's individual or corporate AGI Tax, Insurance Premiums Tax, or Financial Institutions Tax liabilities. The aggregate amount of credits awarded for projects to retain existing jobs in Indiana may not exceed \$10 M per year. There is not an aggregate limit on EDGE credits for new jobs.

Enterprise Zone Employment Expense Credit (IC 6-3-3-10) - This tax credit is for employers that hire qualified employees that live and work half of the time in an enterprise zone. The credit is equal to the lesser of 10% multiplied by the qualified increased employment expenditures of the taxpayer for the taxable year; or \$1,500 multiplied by the number of qualified employees employed by the taxpayer during the taxable year. The credit is nonrefundable, but unused credits may be carried forward for up to 10 years or carried back for up to 3 years. The credit may be applied against individual or corporate AGI Tax, Financial Institutions Tax, or Insurance Premiums Tax liabilities.

Enterprise Zone Investment Cost Credit (IC 6-3.1-10) - The Enterprise Zone Investment Cost Credit is based on qualified investments made within Indiana enterprise zones. It can equal up to a maximum of 30% of the investment, depending on the number of employees, the type of business and the amount of investment in an enterprise zone. The credit is not available to corporate taxpayers or pass-through entities. However, a pass-through entity that invests in the Vigo County enterprise zone may be eligible to claim the credit. The credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back. This credit may be applied against individual or corporate AGI tax liability.

Enterprise Zone Loan Interest Credit (IC 6-3.1-7) - The Enterprise Zone Loan Interest Credit can be for up to 5% of the interest received from all qualified loans made during a tax year for use in an Indiana enterprise zone. The credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back. This credit may be applied against the individual or corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax.

Headquarters Relocation Credit (IC 6-3.1-30) - The Headquarters Relocation Credit was created as an incentive for businesses to relocate their corporate headquarters, a division or subdivision principal office, or research center to Indiana. An eligible business is a business with at least \$50 M in worldwide revenues in the year prior to applying for the credit, has a qualifying facility located outside Indiana, and has not previously maintained a qualifying facility in Indiana. An eligible business that completes a qualifying project, incurs relocation costs, and employs at least 75 employees in Indiana is entitled to a credit against the taxpayer's state tax liability for the year in which the relocation costs are incurred. The amount of the credit equals up to 50% of the amount of the relocation costs incurred in the taxable year. However, the

amount claimed may not result in an Indiana tax liability that is lower than the Indiana tax liability in the taxable year immediately preceding the taxable year in which the taxpayer first incurred the relocation costs. The credit is nonrefundable, but unused credits may be carried forward for up to nine succeeding taxable years. Unused credits may not be carried back. The tax credit may be applied to individual or corporate AGI Tax, Financial Institutions Tax, or Insurance Premiums Tax liabilities.

Historic Rehabilitation Credit (IC 6-3.1-16) - The Historic Rehabilitation Tax Credit is for the rehabilitation of historic property and may be applied against individual or corporate AGI Tax liability. The tax credit is equal to 20% of qualified expenditures as approved by the Department of Natural Resources, and the qualified expenditures must exceed \$10,000. The credit is nonrefundable, but unused credits may be carried forward for up to 15 years. Unused credits may not be carried back. The maximum statewide credit may not exceed \$450,000 for all taxpayers for a fiscal year, except for FY 1998 and FY 1999 when the cap was \$750,000.

Indiana 529 College Savings Account Contribution Credit (IC 6-3-3-12) - This tax credit may be claimed by individual taxpayers who made contributions to an Indiana CollegeChoice 529 Education Savings Plan. The credit is equal to 20% of the taxpayer's annual contributions to an Indiana CollegeChoice 529 Education Savings Plan, up to a maximum credit of \$1,000 annually. The credit is nonrefundable and unused credits may not be carried forward or carried back.

Indiana Comprehensive Health Insurance Association Assessment Credit (IC 27-8-10-2.4) - This tax credit is for insurers that paid assessments to the Indiana Comprehensive Health Insurance Association (ICHIA). The credit may be applied to the AGI Tax or Insurance Premiums Tax liabilities. No new tax credits are allowed for assessments paid to ICHIA after December 31, 2004. However, an insurer that had unused tax credits for assessments to ICHIA before January 1, 2005, is authorized to claim 10% of the unused credits each year beginning in tax year 2007. If, in any tax year, a taxpayer's tax liability is less than the 10% credit amount allowed, those unused credits may be carried forward without being subject to the 10% limit.

Indiana Insurance Guaranty Association Assessment Credit (IC 27-6-8-15) - This tax credit is for insurers that pay assessments to the Indiana Insurance Guaranty Association. The credit may be applied to the AGI Tax or Insurance Premiums Tax liabilities. This credit is limited to 20% of the assessments paid by an insurance company. The credit is nonrefundable, and unused credits may not be carried forward or carried back.

Individual Development Account Credit (IC 6-3.1-18) - The Individual Development Account Credit is for contributions made to community development corporations that participate in Individual Development Account programs. Individual Development Account programs assist qualifying low-income residents in accumulating savings and building personal finance skills. The credit is equal to 50% of the amount contributed, which must not be less than \$100 and not more than \$50,000. The tax credit is nonrefundable, and unused credits may not be carried forward or carried back. No more than \$200,000 in tax credits may be claimed in any state fiscal year. This tax credit may be applied to individual or corporate AGI Tax or Financial Institutions Tax liabilities.

Industrial Recovery (Dinosaur) Credit (IC 6-3.1-11) - The Industrial Recovery Credit is based on a taxpayer's qualified investment in a vacant industrial facility located in a designated industrial recovery site. The IEDC must approve applications and plans for rehabilitation in order to receive this tax credit. The amount of the credit is equal to the qualified investment made during the taxable year, multiplied by one of the applicable percentages below:

- (1) 15% for a plant located on an industrial recovery site that was placed in service between 15 to 30 years ago;
- (2) 20% for a plant located on an industrial recovery site that was placed in service between 30 to 40 years ago; or
- (3) 25% for a plant located on an industrial recovery site that was placed in service at least 40 years ago.

The tax credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back. The tax credit may be applied against individual or corporate AGI Tax, Financial Institutions Tax, and Insurance Premiums Tax liabilities.

Lake County Homeowner's Property Tax Credit (IC 6-3.1-20) - The Lake County Homeowner's Property Tax Credit is for property taxes paid by an individual taxpayer on a home the taxpayer owns and resides within Lake County. The credit is refundable. To qualify for the property tax credit the taxpayer's earned income must be less than \$18,600 and the taxpayer may not claim the income tax deduction for property taxes paid on the home. If the taxpayer's earned income is \$18,000 or less, the credit is equal to the lesser of \$300 or the amount of property taxes paid on the taxpayer's home. The tax credit phases out for taxpayers with earned income exceeding \$18,000. Under the phaseout, for every dollar of earned income exceeding \$18,000, the tax credit is reduced by \$0.50 until the credit is \$0 for taxpayers with an earned income of at least \$18,600.

The entire cost of this credit is reimbursed to the state General Fund from Riverboat Admission Tax revenue distributed to Lake County (50%), East Chicago (16.67%), Gary (16.67%), and Hammond (16.67%).

Neighborhood Assistance Credit (IC 6-3.1-9) - The Neighborhood Assistance Credit is available to taxpayers that contribute to qualifying nonprofit organizations for approved projects that assist people living in economically disadvantaged areas. This credit is equal to 50% of the amount contributed up to a maximum credit of \$25,000 in any taxable year. The credit is nonrefundable, and unused credits may not be carried forward or carried back. The credit can be applied against individual or corporate AGI Tax or Financial Institutions Tax liabilities. The total amount of neighborhood assistance credit allowed to all taxpayers in any state fiscal year is limited to \$2.5 M.

Prison Investment Credit (IC 6-3.1-6) - The Prison Investment Credit is for taxpayers that invest in Indiana prisons to create jobs for prisoners. The credit is equal to 50% of any capital investment and 25% of any wages paid by a business that hires adult offenders within correctional facilities. The credit is nonrefundable, and unused credits may not be carried forward or carried back. The maximum tax credit per employer is \$100,000. This tax credit may be applied to individual or corporate AGI Tax liability.

Research Expense Credit (IC 6-3.1-4) - The Research Expense Credit is available for taxpayers that have increased research activities conducted in Indiana. The credit is calculated based on the increased expenses a taxpayer incurred over their base-year expenditures. The base-year expenditures are measured for taxable years beginning after December 31, 1989, and are equal to the federal base amount as defined in the Internal Revenue Code (2001). The base-year expenses may not be less than 50% of the current tax year's qualified research expenses. The credit is nonrefundable, but unused credits may be carried forward for up to 10 years. Unused credits may not be carried back.

A taxpayer may elect an alternative method to calculate the Research Expense Tax Credit for Indiana qualified research expenses incurred after December 31, 2009. The alternative calculation of the credit is equal to 10% of the difference between: (1) the taxpayer's current-year Indiana qualified research expenses; and (2) 50% of the taxpayer's average Indiana qualified research expenses for the three preceding taxable

years. If the taxpayer did not have Indiana qualified research expenses in any one of the three preceding taxable years, then the amount of the credit is equal to 5% of the taxpayer's Indiana qualified research expenses for the taxable year. The alternative calculation method is similar to an alternative calculation method allowed for the federal income tax credit for increasing research activities.

School Scholarship Contribution Credit (IC 6-3.1-30.5) - The School Scholarship Contribution Credit is equal to 50% of the contributions made by an individual or corporate taxpayer to a nonprofit K-12 school scholarship-generating organization. The credit began in tax year 2010. The tax credit is nonrefundable, and unused credits may be carried forward for up to nine years for contributions made after December 31, 2012. Unused credits may not be carried back. Total credits allowed may not exceed \$2.5 M per fiscal year before FY 2012, \$5 M per fiscal year in FY 2012 and FY 2013, and \$7.5 M per fiscal year beginning in FY 2014. The tax credit may be applied to individual or corporate AGI Tax, Financial Institutions Tax, or Insurance Premiums Tax liabilities.

Teacher Summer Employment Credit (IC 6-3.1-2) - The Teacher Summer Employment Credit is for taxpayers that hire designated shortage certified teachers during the summer vacation. The qualified positions must be certified by the Department of Education. The tax credit is equal to the lesser of \$2,500, or 50% of the amount of compensation paid to the eligible teacher by the taxpayer during the taxable year. The credit is nonrefundable and unused credits may not be carried forward or carried back. Total tax credits may not exceed \$500,000 for all taxpayers per fiscal year. The credit may be applied to AGI Tax or Financial Institutions Tax liabilities. New credits may not be awarded after December 31, 2011.

21st Century Scholars Program Credit (IC 6-3-3-5.1) - The 21st Century Scholars Program Credit is for contributions made to the 21st Century Scholars Program Support Fund by individual or corporate AGI taxpayers. The credit is equal to 50% of the contributions made by a taxpayer during a taxable year, up to a maximum credit of \$100 for a single return and \$200 for a joint return. For corporations, the tax credit amount may not exceed the lesser of either 10% of the corporation's total AGI Tax for the taxable year or \$1,000. The credit is nonrefundable and unused credits may not be carried forward or carried back.

Unified Tax Credit for Elderly (IC 6-3-3-9) - An individual AGI taxpayer is eligible for the Unified Tax Credit for the Elderly if they meet all of the following requirements: (1) the taxpayer and/or spouse must be at least 65 years old by the end of the taxable year; (2) the federal AGI must be less than \$10,000; and (3) the qualifying taxpayer and/or spouse must have been a resident of Indiana at least 6 months during the taxable year. The credit is refundable, but may not be carried forward or carried back.

The amount of the credit is based upon income and marital status. If the taxpayer is filing a single return and is age 65 or older, or if the taxpayer is filing a joint return and only the taxpayer or spouse is over 65, then the credit will be calculated as follows:

Income Amount	Credit Amount
Less than \$1,000	\$100
Between \$1,000 and \$2,999	\$ 50
Between \$3,000 and \$9,999	\$ 40

If the taxpayer and spouse are filing a joint return and both are 65 or older, then the credit will be calculated as follows:

Income Amount	Credit Amount
Less than \$1,000	\$140
Between \$1,000 and \$2,999	\$ 90
Between \$3,000 and \$9,999	\$ 80

Venture Capital Investment Credit (IC 6-3.1-24) - The Venture Capital Investment Credit is equal to 20% of annual qualified venture capital investment made by a taxpayer up to a maximum credit of \$1 M. The IEDC certifies businesses to receive creditable venture capital investment. The investment must be made between 2004 and 2016. Total new credits awarded may not exceed \$12.5 M annually (\$10 M in 2004). The credit is nonrefundable, but unused credits may be carried forward for up to 5 years. Unused credits may not be carried back. The credit may be applied to individual or corporate AGI Tax, Financial Institutions Tax, Insurance Premiums Tax, or Sales Tax liabilities.